

Master Builders Australia

SUBMISSION TO INFRASTRUCTURE AUSTRALIA

2020 INFRASTRUCTURE PRIORITY LIST

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About Master Builders

Master Builders Australia is the nation's peak building and construction industry association which was federated on a national basis in 1890. Master Builders' members are the Master Builder State and Territory Associations. Over 129 years the movement has grown to over 33,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors, residential, commercial and engineering construction.

1. Economic Backdrop

The headline economic figures for Australia's economy present an almost contradictory picture. On the one hand, latest GDP figures indicate that the pace of economic growth dipped to a decade low of 1.8% over the year to March 2019. The other hand tells us that employment creation and generation are still very strong: over the year to June 2019, a total of 296,300 new jobs were created equivalent to a very brisk growth rate of 2.9%. Encouragingly, the vast majority of the economy's new jobs were full time rather than part-time roles.

One of the most distinctive features of the Australian economy is the way in which population growth and employment growth almost move in tandem. This is no coincidence: a healthy labour market here makes Australia a more attractive destination for overseas migrants and the inflow responds accordingly. At the same time, Aussies will be less tempted to go overseas to work should the jobs market here be a lucrative one. The employment-population axis continues to hold good: latest figures show that Australia's national headcount increased by 405,000 over the course of 2018 – breaking the 25 million barrier on its way. Curiously, the robust state of labour market demand has not been matched by any acceleration in wage growth at all. This pattern has been replicated across the globe and is something of a puzzle to economists. At the same time, the 1.3% inflation rate in the economy is beneath the lower band of the RBA target.

With household consumption being the largest component of economic demand, population growth is the most fundamental building block of economic expansion and in this way, the number of consumers in Australia grew by 1.6% during 2018. In this context, the fact that the volume of household spending grew by only 1.8% over the year to March 2019 is underwhelming. The sluggish pace of consumer demand is one of the central reasons why growth in the economy has become subpar.

The downturn in the housing market which began in 2017 has spread to the wider economy. Over the past two years, house prices have reversed sharply in most major cities while new home building activity has retreated from very high levels. The financial confidence of consumers and small business owners is closely linked to house prices and with a relatively heavy household debt burden, the effect on spending and investment has not been good.

2. Current Outlook for Building and Construction Activity

Master Builders released its set of forecasts for building and construction to 2023/24 in early August 2019. Overall, the performance of construction in Australia over the period to 2023/24 is expected to be rather flat – but there will be considerable variation within the different sectors and geographic markets. The fundamentals of the market – population, employment and interest rates – are sound, but several microeconomic obstacles are holding things back. The volume of construction actually peaked back in 2012/13, and fell by 14.3% until its 2016/17 low point. Some, but by no means all, of the lost ground has since been recovered. Over the medium term, our forecasts see total construction activity gliding lower and the size of the market in 2023/24 is anticipated to be 2.6% smaller than in 2018/19. Government-led projects mean that transport infrastructure will be one of the strongest performers but prospects for new home building are more mixed and some areas of commercial building will be doing it fairly tough.

New home building reached its highest level on record during 2015/16. The cyclical nature of home building means that some reversal from activity was inevitable. However, the market has also been hit by the combination of tougher credit conditions, barriers to foreign buyers and falling house prices. We forecast that new dwelling starts will bottom out at 167,750 during 2020/21 – about 28% down on its peak. By the end of the forecast horizon in 2023/24, we anticipate that new home building will have recovered to 187,660 – a gain of 12% on its low point, and still a strong performance by historic standards. Home renovations activity is expected to grow slowly but steadily over the forecast horizon.

Commercial building has been something of a star performer over the last couple of years and has recently touched record highs. We anticipate that activity here will break another new high during 2019/20 before reverting to levels more consistent with previous norms. By 2023/24, we project that commercial building activity will have fallen by 9% compared with 2018/19. Office and accommodation building are expected to see the most pain over the next few years while retail, health and transport buildings will buck the trend and return decent gains.

Engineering and civil construction never fully recovered from the slump post-mining investment boom. The good news is that a heavy pipeline of Government-led infrastructure work is chugging into operation and is set to benefit road and rail construction in particular. Our forecasts envisage that engineering and civil construction will peak during 2020/21, representing a 12.5% expansion on 2018/19. Thereafter, the amount of activity is likely to ease lower. While things are looking up for transport work, prospects are likely to be tougher for telecommunications as the NBN comes to a conclusion.

3. MBA Proposed Projects for Consideration

For the 2020 Infrastructure Australia Project Priority List, Master Builders Australia proposes 15 projects. These are summarised in the table below. Master Builders is happy to provide more details of these projects if required and is available to discuss these further.

Projects Proposed by Master Builders Australia for Inclusion in 2020 Infrastructure Priority List			
Project Name	State/Territory	Area Served	Category
Outer Suburban Rail Loop	Victoria	Greater Melbourne	Urban Congestion
East West Link	Victoria	Greater Melbourne	Urban Congestion
Melbourne Airport Rail	Victoria	Greater Melbourne	Urban Congestion
Fast Rail from Melbourne to Geelong/Ballarat/Bendigo	Victoria	Greater Melbourne	National Connectivity
Cross River Rail	Queensland	South East Queensland	Urban Congestion
North-South Corridor (completion of)	South Australia	Greater Adelaide	Urban Congestion
Grain/Minerals Port on Eyre Peninsula	South Australia	Eyre Peninsula	Opportunity for Growth
Extension of Tram Services in Adelaide CBD	South Australia	Greater Adelaide	Urban Congestion
Underground Rail Link in Adelaide CBD	South Australia	Greater Adelaide	Urban Congestion
Completion of Gawler Rail Electrification	South Australia	Greater Adelaide	Urban Congestion
O-Bahn Extension in Adelaide	South Australia	Greater Adelaide	Urban Congestion
Level crossing removals in Adelaide	South Australia	Greater Adelaide	Urban Congestion
Sealing of the Strzelecki Track	South Australia	Regional SA	National Connectivity
Northern Link Road (Jabiru to Arnhem Land)	Northern Territory	Arnhem Land/Top End	Remote Infrastructure
Canberra Light Rail - Stage 2	ACT	Canberra City - Woden Corridor	Urban Congestion
10-Year ACT Infrastructure Plan*	ACT	Canberra City - Woden Corridor	Urban Congestion

The majority of the projects proposed by MBA address the issue of urban congestion. The latest National Infrastructure Audit 2019 drew attention to the fact that congestion in Australia's major cities has significantly worsened since the previous audit in 2015 and highlighted the risk that further deterioration is likely over the coming years should the necessary infrastructure not be delivered. Tackling urban construction also takes pressure off the housing stock in the affected cities by allowing people to live further out from the urban hubs and still be able to commute to the CBD in reasonable time.

Apart from their significant role in boosting living standards over the long term, infrastructure projects offer a strong return in terms of their effect on short term demand in the economy. The inputs to building and construction activity have a strong domestic content (materials and labour) and therefore provide a substantial dividend in terms of supporting indirect economic

activity. This is particularly pertinent at a time when Australia's rate of economic growth is subpar and many parts of the building and construction industry are struggling.

A few of the projects listed below are designed to spread economic growth to regional and remote parts of Australia. For example, the Northern Link Road proposed for the NT's Arnhem Land would unlock a large part of Australia to development and economic growth by reducing costs in the local economy, cutting travel times and enhancing the liveability of surrounding areas. Similarly, the creation of a Grain/Minerals Port on the Eyre Peninsula would open it up to new markets and transform the commercial viability of local manufacturing and agricultural operations.

Additional Details for Selected Projects

Northern Link Road (Jabiru to Arnhem Land): The cost of this project has been estimated at \$1.4 billion and would represent the first major infrastructure project to serve communities resident in the Arnhem Land region of the Northern Territory.

There is an historic significance to this proposal. Arnhem Land was the first indigenous land grant made by the Commonwealth government back in 1931. Almost 100 years on from that, the level of infrastructure provision to the area is poor with a lack of all weather road access for most communities – with barge or plane access often the only viable link.

Not surprisingly, this situation has severely impeded the economic development of the Arnhem Land region. Potential growth sectors like broadacre farming, horticulture, tourism, mining and space have been stifled by lack of quality transport networks and the delivery of government services in the region is also extremely expensive as a result.

Master Builders proposes a 3-year planning and design phase for the Northern Link Road, followed by a 5 year construction window, delivering the completion of the road in time for the Centenary of Australia's First Indigenous Land Grant. The first stages of the project have already had some investigations and preliminary design work is available.

Canberra Light Rail (Stage 2): Stage 2 of the Canberra Light Rail would link Canberra's CBD with the southern suburban hub at Woden. Stage 1 of the Light Rail opened earlier this year and links the city's northern suburbs with the centre of the city. The likely benefits will include reduced urban congestion, enhanced urban renewal environmental dividends through reductions in car dependency.

***10-Year Infrastructure Plan for the ACT:** While not related to a specific project, Master Builders wishes to highlight the ACT Government's commitment to produce a 10-Year

Infrastructure Plan by the end of 2019. Master Builders urges Infrastructure Australia to consider all of the projects included in the forthcoming Infrastructure Plan for the ACT for consideration in the 2020 Infrastructure Priority List.